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SUBJECT: NEW MINISTER OF ECONOMY EMPHASIZES FOREIGN
INVESTMENT, BUSINESS, AND ENERGY

REF: A. VILNIUS 781

[1](#)B. VILNIUS 838

Classified By: Economic Officer Scott Woodard for reasons 1.4 (b) and (d)

[1](#)1. (C) SUMMARY: Minister of Economy Kestutis Dauksys, meeting with Ambassador on August 16, emphasized the need to attract foreign investment, to improve the capacity of Lithuanian companies, and to develop a sound energy policy that will guarantee fuel supplies and promote Lithuania's energy independence. The Ambassador offered the Embassy's assistance in attracting U.S. direct investment to Lithuania. We will continue to work closely with his ministry to improve Lithuania's commercial and investment climate and further USG and U.S. business interests. END SUMMARY.

COURTESY CALL ON THE NEW ECON MIN

[1](#)2. (C) Kestutis Dauksys, who replaced Viktor Uspaskich as Minister of Economy on June 29, is a successful businessman with limited government experience. He served as chair of the Labor Party's Trakai regional branch and became a member of the Seimas in 2004 as part of the party's electoral list. Ambassador Mull called on the new minister, August 16, to discuss learn of Dauksys's priorities for the Ministry and to discuss our common agenda of economic issues, which includes foreign investment, Lithuania's business environment, and energy issues.

INVESTMENT: A TOP PRIORITY

[1](#)3. (C) Dauksys told the Ambassador that development of commerce and investment is among the highest priorities of the Ministry of Economy (MinEcon). He said that Lithuania needs to improve its investment climate in order to compete successfully with other emerging markets for FDI. Recounting recent joint efforts to promote investment in the Baltics, the Ambassador highlighted the successful December 2004 U.S. Ambassadors to the Baltics Trade and Investment Conference in London and the follow up conference in the Washington, which have led to new U.S. investment in Lithuania. He said Lithuania could do more to attract further investment by taking several measures to remove impediments and disincentives to foreign investment, including:

--addressing Lithuania's high rates of piracy and IPR infringements;

--enhancing educational opportunities for the children of foreigners engaged in business in Lithuania;

--taking a strong stand against public and private corruption; and

--establishing a "one-stop shop" that would assist foreign investors in fulfilling the legal and bureaucratic requirements of setting up a business in Lithuania.

Dauksys especially endorsed the Ambassador's suggestion for "one-stop-shopping" and said his ministry is already at work on a plan to institute the idea. Dauksys noted that he has commissioned an overview of his ministry's strategic planning processes and said he would welcome U.S. input to that overview.

[1](#)5. (C) Dauksys squarely acknowledged that respecting and protecting IPR protections is a problem in Lithuania, noting for example that he recently examined his own music collection and was shocked to discover that 40 percent of it was possibly from pirated sources. He said that in Soviet times, music belonged to "the people" and many Lithuanians still maintained this attitude towards recorded music and other forms of IPR. He said that he expects, however, that these attitudes will continue to shift towards recognizing the importance of honoring IPR.

HELPING LITHUANIAN BUSINESSES DO BETTER

16. (C) Dauksys said in response to the Ambassador's prompt that supporting the development of the country's strong small and medium enterprises is an important priority. He said that his ministry had established several business information centers to address a lack of expertise in the small business community, but that they were not functioning well. He mentioned that he would welcome U.S. assistance in improving the effectiveness of these centers and would like to learn more about micro-credit programs. The Minister also expressed concern about the flight of skilled labor from Lithuania. Ambassador Mull suggested consultations with the U.S. Small Business Administration and other USG resources, and offered to explore possibilities for Ministry of Economy personnel to travel to Washington for further research.

ENERGY DEPENDENCE

17. (C) Dauksys said that Lithuania would continue to depend on Russia for much of its energy supply, especially for oil and natural gas. He said that he was disappointed at the recent Russian-German agreement to build a gas pipeline under the Baltic Sea because the GOL had hoped that a new pipeline would transit Lithuania on its way to Western Europe, thereby reducing the likelihood of interrupted gas flows to Lithuania.

18. (C) The Minister jokingly lamented the fact that the Soviet Union had built the Russian-supplied Mazeiku Nafta oil refinery (MN) in Lithuania. "Without it, we could buy petroleum products from wherever we wanted, but now we have to buy everything from there," he said. Dauksys soberly acknowledged that the GOL recognized that any buyer of Yukos's majority share in the refinery (ref A) would need to have "a connection to Moscow" to be able to insure supply. He noted, however, that the GOL hopes the company that does win the bid for MN has "international experience" and is not a "Russian federal monster."

19. (C) Dauksys was more optimistic about Lithuania's ability to insure its supply of electricity, even after it fully decommissions the Ignalina nuclear power plant. He said that the GOL plans to construct links to both Sweden and Finland that could supply electricity to Lithuania. The GOL would also like a bridge to Poland, he said, but faces serious resistance from the Poles.

110. (C) Ambassador Mull said that he hoped that sale of Yukos's shares would be a transparent process. He said that if the GOL decided to replace Ignalina with another nuclear power plant, Westinghouse could build one or more of its IRIS units in Lithuania at a very competitive cost.

BERYLLIUM AD NAUSEUM

111. (C) Dauksys brought up the subject of the recent transfer of non-radioactive beryllium from a Lithuanian bank vault to a Russian company (ref B), noting that the media was trying to make "a big deal out of it." The Ambassador said that, while he would have preferred that the GOL had given the Embassy advance notice of the transfer, he said that he fully recognized Lithuania's authority to transfer the beryllium as it wished, and was pleased that the GOL had resolved the problem of ownership and disposition of the material in accordance with established export control procedures.

AN INVITATION

112. (C) The Ambassador said that he hoped Dauksys would visit the United States in the near future, and offered his assistance in helping to arrange meetings with business leaders and policy makers. Dauksys expressed interest in such a visit as his schedule permits.

COMMENT

113. (C) Dauksys, although new to the job, is already thoroughly engaged in addressing the key challenges that face the Ministry of Economy, notably energy security, increasing investment, and retention of labor. We look forward to a constructive and active relationship with the Ministry under his leadership. We will pursue opportunities to advance our IPR agenda and otherwise improve the climate for U.S. investment, and we will look to assistance from Washington agencies to provide some of the technical support he seeks.

